

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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R 122117Z SEP 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8615
INFO/ALL CANADIAN CONSULATES POUCH

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: EFIN, ECON, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING SEPTEMBER 8.

1. SUMMARY. CURRENT ACCOUNT DEFICIT INCREASED SHARPLY IN SECOND QUARTER TO CDOLS 1.4 BILLION DUE TO CONTRACTION OF TRADE SURPLUS. NEWS SEPTEMBER 8 OF DETERIORATION IN CURRENT ACCOUNT BALANCE CONTRIBUTED TO CONTINUING DECLINE OF CANADIAN DOLLAR EXCHANGE RATE. GOC REVEALED SEPTEMBER 8 CONCLUDING DETAILS OF ECONOMIC POLICY INITIATIVE LAUNCHED BY PM TRUDEAU ON AUGUST 1. IN FIRST FOUR MONTHS OF FY 1978/79, GOC BUDGET DEFICIT RAN AT CDOLS 16 BILLION ANNUAL RATE. FEDERAL/PROVINCIAL TASK FORCE ADVOCATED MEASURES TO SUPPORT ELECTRONICS INDUSTRY. CONSUMER CONFIDENCE ROSE SMARTLY IN SECOND QUARTER BUT BURST OF ENTHUSIASM MAY BE TEMPORARY. HOUSING STARTS PICKED UP SOMEWHAT IN AUGUST WHILE LONG-AWAITED DROP IN FOOD PRICES FINALLY MATERIALIZED. CANADA/U.S. SHORT TERM INTEREST RATE DIFFERENTIAL CONTINUED TO NARROW. END SUMMARY.

2. CURRENT ACCOUNT: CURRENT ACCOUNT DEFICIT (BOTH UNADJUS-
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TED AND SEASONALLY ADJUSTED) INCREASED SHARPLY IN SECOND QUARTER TO CDOLS 1.4 BILLION FROM CDOLS 504 MILLION (SA) FIRST QUARTER DEFICIT. DETERIORATION OF CURRENT ACCOUNT BALANCE BETWEEN FIRST AND SECOND QUARTERS WAS DUE TO CONTRACTION OF TRADE SURPLUS (SA) FROM CDOLS 1.5 BILLION TO CDOLS 554 MILLION. SERVICE DEFICIT WAS ESSENTIALLY CONSTANT AT CDOLS 2.0 BILLION FIRST QUARTER LEVEL (SEE SEPTTEL).

DATA FOR JULY INDICATES THAT TRAVEL DEFICIT, WHICH INCREASED IN SECOND QUARTER, MAY CONTINUE TO WIDEN IN THIRD (SEE PARA 7 BELOW).

3. EXCHANGE RATE: CANADIAN DOLLAR EXCHANGE RATE CONTINUED TO SLIDE ON NEWS OF INCREASE IN SECOND QUARTER CURRENT ACCOUNT DEFICIT. AVERAGE CLOSING EXCHANGE RATE FOR WEEK WAS 86.51 U.S. CENTS, COMPARED WITH 86.99 U.S. CENTS PREVIOUS WEEK.

4. ECONOMIC POLICY: AT PRESS CONFERENCE SEPTEMBER 8, FINANCE MINISTER CHRETIEN AND TREASURY BOARD PRESIDENT ROBERT ANDRAS GAVE CONCLUDING DETAILS OF ECONOMIC POLICY INITIATIVE LAUNCHED BY PM TRUDEAU ON AUGUST 1. FINAL PACKAGE REDUCES FEDERAL GOVERNMENT SPENDING THIS FISCAL YEAR AND NEXT BELOW PREVIOUSLY ESTIMATED TOTALS AND RESULTS IN SHRINKAGE OF GOC FINANCING REQUIREMENT IN BOTH YEARS. WHILE NEW MEASURES WILL HAVE MINIMAL EFFECT ON GNP GROWTH OVER NEXT EIGHTEEN MONTHS, THEY WOULD PRODUCE IMPORTANT REFORMS OF UNEMPLOYMENT INSURANCE SYSTEM AND OTHER SOCIAL PROGRAMS (SEE OTTAWA 4411).

5. FEDERAL BUDGET DEFICIT: DEVELOPMENTS THUS FAR IN FY 1978/79 JUSTIFY CONCERN EXPRESSED BY GOC OVER GROWTH OF FEDERAL GOVERNMENT SPENDING. GOC EXPENDITURES IN FIRST 4 MONTHS OF FISCAL YEAR TOTALLED CDOLS 15.2 BILLION, A 17.1 PERCENT INCREASE FROM COMPARABLE PERIOD IN FY 1977/78.
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OVER SAME PERIOD, REVENUES ROSE BY ONLY 2.8 PERCENT TO CDOLS 10 BILLION. ACCUMULATIVE BUDGET DEFICIT IN FY 1978/79 IS THUS CDOLS 5.2 BILLION, AN ANNUAL RATE OF 15.6 BILLION.

6. TASK FORCE ON ELECTRONICS: INDUSTRY/LABOR/GOVERNMENT TASK FORCE ON ELECTRONICS SECTOR, ESTABLISHED AS ONE OF SEVERAL SECTORAL STUDY GROUPS AT FEDERAL/PROVINCIAL ECONOMIC SUMMIT LAST FEBRUARY, CONCLUDED THAT NON-TARIFF MEASURES TO SUPPORT ELECTRONICS INDUSTRIES ABOUND IN OTHER COUNTRIES AND THAT CANADA SHOULD FOLLOW SUIT. TASK FORCE REPORT CALLS FOR GRANTS, TAX REBATES AND OTHER INCENTIVES TO STIMULATE R&D SPENDING, AND IMPLEMENTATION OF "BUY CANADIAN FIRST" POLICY BY FEDERAL AND PROVINCIAL GOVERNMENTS. REPORT ALSO RECOMMENDS THAT RECIPROCAL ACTION ON NON-TARIFF BARRIERS BECOME PART OF GOC COMMERCIAL POLICY AND THAT TRADE AGREEMENTS BE NEGOTIATED UNDER WHICH ENTRY INTO SELECTED CANADIAN MARKETS WOULD BE OFFERED IN RETURN FOR FOREIGN R&D INVESTMENT IN CANADA. (COPIES OF REPORT POUCHED TO WASHINGTON)

7. ECONOMIC INDICATORS:

-- ANTI-INFLATION BOARD (AIB) INDEX OF FOOD PRICES (NSA)
DECLINED BY 1.5 PERCENT IN MID-AUGUST TO 147.8 (1974100).
PRICE OF FRESH VEGETABLES DROPPED BY OVER 27 DUE TO ARRIVAL ON MARKET OF DOMESTIC PRODUCE. BEEF PRICES ALSO FELL, WHILE PRICES OF PORK AND POULTRY WERE HIGHER.
-- CONFERENCE BOARD'S INDEX OF CONSUMER CONFIDENCE (SA)
LEAPED TO 104 (1961100) IN SECOND QUARTER, AN INCREASE OF

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24 FROM FIRST QUARTER. SECOND QUARTER RISE BROUGHT INDEX TO ITS HIGHEST LEVEL SINCE FIRST QUARTER OF 1974. CONFERENCE BOARD CAUTIONED, HOWEVER, THAT CONSUMER ENTHUSIASM MAY BE TEMPORARY, REFLECTING INTENTIONS TO MAKE PURCHASES BEFORE PROVINCIAL SALES TAXES RETURN TO PRE-APRIL LEVELS.
-- DEPARTMENT STORE SALES (NSA) WERE CDOLS 550.4 MILLION IN JULY, AN 8 PERCENT INCREASE OVER JULY, 1977. TWELVE MONTH INCREASE IN JULY REPRESENTS DECELERATION FROM JUNE RISE OF 14 PERCENT AND INDICATES THAT CONSUMERS ARE NOT ON A BUYING BINGE.
-- HOUSING STARTS WERE AT SEASONALLY ADJUSTED ANNUAL RATE OF 224,700 IN AUGUST, UP 10 PERCENT FROM JULY RATE OF 204,200, BUT DOWN BY 10.8 PERCENT FROM LAST AUGUST. RESIDENTIAL CONSTRUCTION CONTINUES AS IMPORTANT SOFT SPOT IN OVERALL INVESTMENT ACTIVITY.
-- ACCORDING TO STATCAN FIGURES, U.S. VISITORS TO CANADA TOTALLED 5.7 MILLION (NSA) IN JULY, A 1.6 PERCENT DROP FROM JULY, 1977. OVER SAME PERIOD, NO. OF CANADIANS VISITING U.S. ROSE BY 3.6 PERCENT TO 5.2 MILLION (NSA). VISITORS FROM OTHER COUNTRIES INCREASED BY 22 PERCENT TO 328,000, WHILE CANADIAN VISITORS TO THESE COUNTRIES ROSE BY 0.4

PERCENT TO 154,000. BETWEEN JANUARY AND JULY 1978, 17.9
MILLION U.S. VISITORS ENTERED CANADA, A DECLINE OF 1.2
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PERCENT FROM JANUARY/JULY 1977. CANADIANS VISITING U.S.
DROPPED BY ONLY 0.5 PERCENT TO 22.2 MILLION. DECLINE OF
U.S. TRAVELLERS TO CANADA RELATIVE TO CANADIAN VISITORS
TO U.S. IMPLIES THAT DEPRECIATION OF CANADIAN DOLLAR HAS
NOT ACTED TO REVERSE WIDENING CANADIAN TRAVEL DEFICIT.

8. CAPITAL MARKETS: SHORT TERM INTEREST RATES SHOWED
LITTLE CHANGE IN WEEK. INTEREST RATE ON THREE MONTH TREA-
SURY BILLS WAS CONSTANT AT PREVIOUS WEEK'S LEVEL OF 8.80
PERCENT. MONEY MARKET RATES DECLINED SOMEWHAT. AS U.S.
RATES ROSE, DIFFERENTIAL BETWEEN CANADIAN AND U.S. SHORT
TERM INTEREST RATES CONTINUED TO NARROW. ENDERS

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